



INDONESIA'S CORPORATE BOND SECTOR: SMALL BUT GROWING

Updated: June, 2005

Summary:

- Indonesia's corporate bond sector is small but growing, more than doubling the number of issuances in the last two years.
- The Surabaya Stock Exchange is the primary listing agency for corporate bonds in Indonesia, with 107 corporate bond issuers and 260 issuances as of May 2005.
- The total value of corporate bonds is about US\$ 6.3 billion, most of which are concentrated in the banking and financial sector.
- Two thirds of corporate bonds are held by domestic mutual funds and pension funds.
- The secondary market is thin with too few investors and issuers.
- There is not yet any widely available pricing system for corporate bonds, though two organizations may establish them in the next 6-12 months.
- Of Indonesia's two rating agencies, Pefindo and Kasnic, Pefindo dominates in domestic corporate bond ratings.

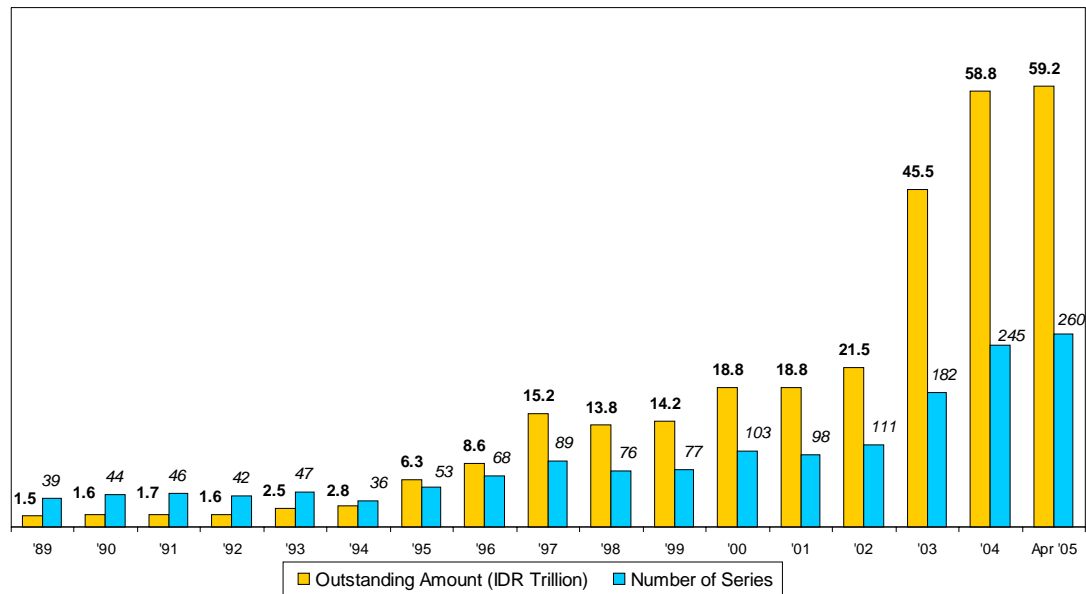
Small But Growing Sector

Indonesian IDR Corporate Bonds	
Issuer	State-owned enterprises, private and public companies
Types	Mostly straight bonds, Syariah, and convertible bonds
Time to Maturity	1 – 10 years
Coupon Payment	Mostly quarterly, semi annually
Coupon Structure	Fixed and/or floating
Settlement	Indonesian Central Securities Depository: book entry settlement for scriptless bonds
	Custodian banks: physical delivery for script bas bonds
Listing	Surabaya Stock Exchange (SSX)
Trading	OTC and Exchange
Outstanding amount	IDR 59.2 trillion, or USD 6.3 billion (105 issuers with 260 issuances)

Source: Surabaya Stock Exchange

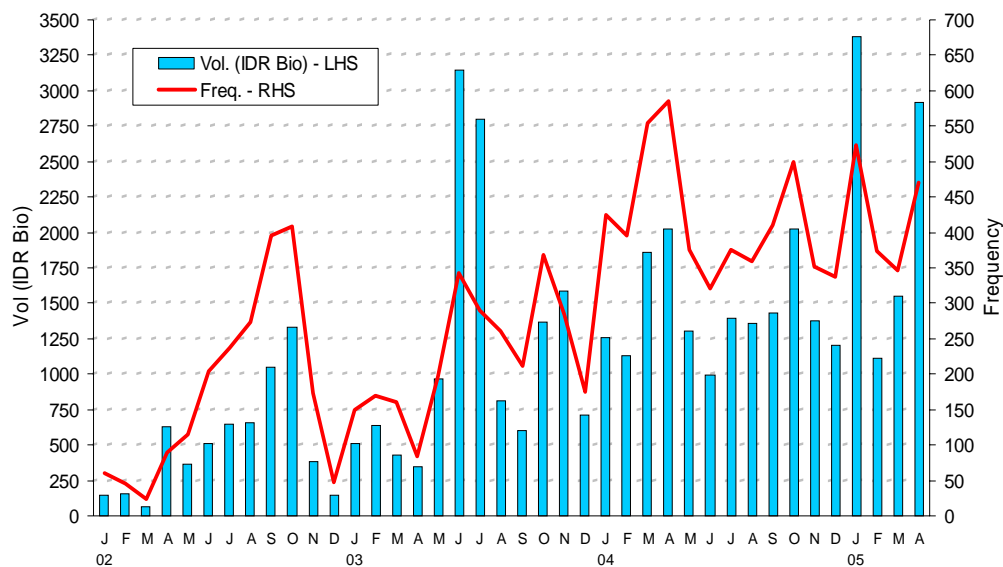
Indonesia's corporate bond market is small but growing. Both corporate and government bonds list on the Surabaya Stock Exchange (SSX). The Surabaya Stock Exchange started in 1989 as a regional stock exchange to support the development of East Java and eastern parts of Indonesia. It currently lists about 206 stocks and is the predominant agency listing both corporate and government bonds in Indonesia. The following charts show the movement of outstanding corporate bonds from 1989 to April 2005 and trading activity from 2002 to April 2005.

Chart 1: Outstanding Corporate Bonds



Source: Surabaya Stock Exchange

Chart 2: Trading Activities of IDR Corporate Bonds



Source: Surabaya Stock Exchange

SSX has about 80% of its operational activities in Jakarta, while its head office in Surabaya (East Java) mainly functions as a supporting office for information and as a training center. SSX has offered an over-the-counter fixed income service (OTC-FIS) to facilitate bond transactions since 1997. (More information can be found at www.bes.co.id.) To be listed on SSX, corporate bonds must be investment grade per Indonesia's Kasnic or Pefindo Ratings and have a minimum issuance valued at Rp. 50 billion (US\$ 5.2 million). A ratings downgrade below investment grade could lead to delisting. A company must also show three years of financial statements and have good growth prospects. For bonds below investment grade, SSX may help facilitate private placements.

The following table shows the increase in activity in this very young market, with the number of issuances more than doubling in two years. As of May 2005, SSX reported 107 corporate bond issuers with 260 issuances, with an outstanding value of Rp. 59.2 trillion (US\$ 6.3 billion). State-owned, public and private companies issue straight, syariah (Islamic bonds that pay profit-sharing rather than interest), and convertible bonds with a one-to-ten year maturity. Commercial paper (corporate bonds with a maturity of less than one year) is still very new to Indonesia, just starting in 2004. The following tables show the growth of corporate bonds in Indonesia.

Table 1 & 2: Corporate Bond Activity

Year	2002	2003	2004
Issuances	111	180	243
Issuers	55	95	107

Source: Capital Markets Supervisory Agency (BAPEPAM)

SURABAYA STOCK EXCHANGE

CORPORATE BONDS MARKET ACTIVITIES (as of May. 2005: 107 issuers, 258 series - IDR, 2 series - USD)

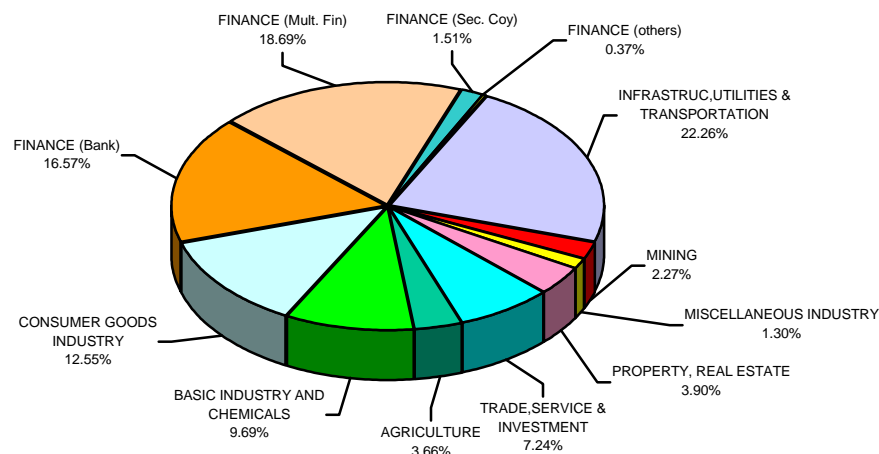
No	Years	Bond Outstanding		Volume (Bio Rp)	Freq (x)	Bourse Day	Daily Average Transaction	
		Rupiah	US Dollar				Vol. (Bio Rp)	Freq. (x)
	1997	15,181,744,000,000	-	7,301.95	1,910	246	29.68	7.8
	1998	13,835,172,000,000	-	4,860.79	1,476	247	19.68	6.0
	1999	14,180,269,500,000	-	4,844.02	1,522	247	19.61	6.2
	2000	18,885,235,878,000	-	8,791.74	2,495	241	36.48	10.4
	2001	18,830,911,330,000	-	1,115.14	403	246	4.53	1.6
	2002	22,020,583,787,000	-	6,091.73	2,077	245	24.86	8.5
	2003	45,484,700,831,000	105,000,000	13,811.87	2,666	239	57.79	11.2
	2004	58,791,354,498,913	105,000,000	17,354.31	4,989	241	72.01	20.7
	2005							
1	Jan	58,363,236,867,334	105,000,000	3,383.50	523	20	169.18	26.2
2	Feb	59,457,164,235,756	105,000,000	1,117.63	373	18	62.09	20.7
3	Mar	58,379,686,704,177	105,000,000	1,553.45	346	21	73.97	16.5
4	Apr	59,123,564,072,598	105,000,000	3,278.95	535	20	163.95	26.8
5	May	59,171,991,441,018	105,000,000	826.25	215	20	41.3125	10.8
Total 2005				10,159.78	1,992	99	102.62	20.1
Average Transaction per Month				2,031.96	398			

Source: Surabaya Stock Exchange

Who is Issuing?

Indonesia's corporate bonds are concentrated most heavily in the banking and financial sector, about 37% total. Banks tend to issue subordinated rather than senior debt. The following table shows Indonesia's corporate bonds by sector as of April 2005.

Chart 3: Corporate Bonds by Sector (as of April 2005)



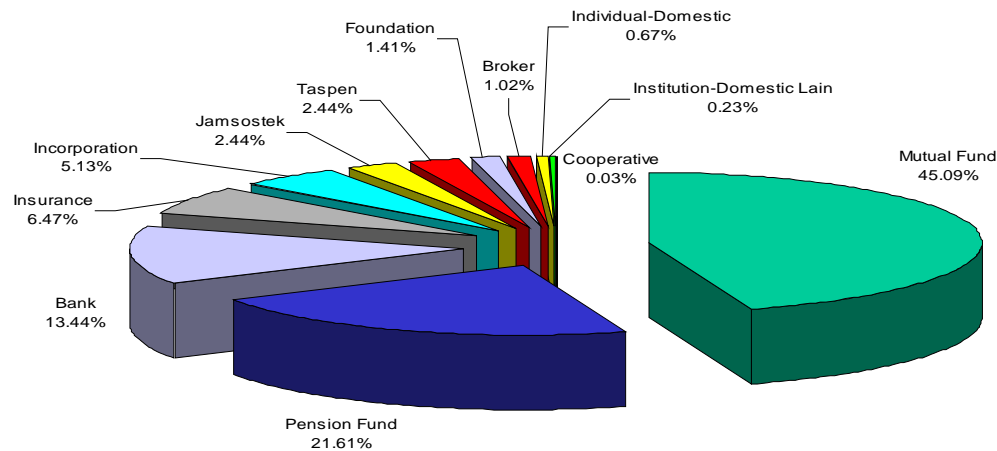
Source: Surabaya Stock Exchange

Several companies postponed planned bond issuances in March-April 2005 after recent market volatility. Only one company, toll road contractor Citra Marga Nusaphala Persada (CMNP) actually issued a bond in the first quarter of 2005 (Rp. 400 billion or US\$ 42 million, with 3 – 5 year maturity). Bank Tabungan Negara postponed Rp. 750 billion (US\$ 80 million) of bonds and Rp. 250 billion (US\$ 26 million) of subordinated debt, and Bank NISP stated it is waiting for better market conditions to issue Rp. 750 billion (US\$ 77 million) of bonds. Bank Danamon Indonesia postponed a Rp. 2.5 trillion (US\$ 260 million) bond issuance, and Bank Internasional Indonesia (BII) and Bank Niaga postponed US\$ 200 million and US\$ 100 million of subordinated debt respectively.

Who is Buying?

Mutual funds and pension funds are the largest holders of Indonesian corporate bonds, with individuals holding less than one percent. The following table shows the ownership profile of Indonesia's corporate bonds (outstanding value of USD 6.3 billion as of May 2005). The state-owned pension firms Jamsostek under Ministry of Labor (with Rp. 26 trillion or US\$ 2.7 billion of assets in 2003) and Taspen under Ministry of Finance (with Rp. 12 trillion or US\$ 1.4 billion of assets in 2003) are the largest pension and social security funds in Indonesia.

Chart 4: Corporate Bonds Ownership Profile (as of April 2005)



Source: Surabaya Stock Exchange

Secondary Market Development

The three largest securities firms in Indonesia are Bank Mandiri's subsidiary Mandiri Sekuritas (Rp 1.4 trillion or USD 150 million of assets), the private firm Trimegah Securities (Rp. 787 billion or US\$ 83 million of assets), and state-owned Danareksa Securities (Rp. 741 billion or US\$ 78 million of assets). Secondary trading has been thin, with no efficient mechanism for obtaining bid-ask prices. The Inter Dealer Market Association (IDMA) was set up in March 2003. Its members consist of 14 domestic banks, six foreign banks and four securities companies.

IDMA's goal is to make Indonesia's secondary bond market more liquid by facilitating price information. IDMA's members act as a "de facto" primary dealers market, since Bank Indonesia has not designated any official primary dealers. Currently IDMA mainly handles the pricing of government securities. Indonesia's Capital Markets Supervisory Agency (BAPEPAM) implemented a regulation in January requiring mutual fund managers to use IDMA's reference price for government bonds held by their funds.

Bond Price Quotation Challenges

Indonesia has two very nascent systems for quoting bond prices: an IDMA system for government bonds and a not-yet-launched system by SSX for corporate bonds. With only two players in this very thin market, it is not yet clear how they will compete or cooperate.

IDMA: IDMA uses the Bloomberg system for price discovery and electronic reporting of trading in government bonds. Currently, IDMA receives prices for trades that occurred throughout the day at 4:00 p.m. IDMA hopes to move to real time bond trading (reporting within 5-10 minutes of a trade) later in 2005. Price information is available on

the IDMA page of Bloomberg. It is not clear if/when IDMA will provide corporate bond prices.

SSX: For government bonds, SSX runs two systems. Its over-the-counter, fixed-income service (OTC-FIS) provides quotations for bond transactions and is used by 16 banks and 4 securities companies. SSX's trading system, the Indonesian Government Securities Trading System (IGSTS) was launched in 2003 for government bonds between members of the Association of Government Securities Dealers. This system is apparently not widely used, reporting only 5-25% of transactions. For corporate bonds, SSX plans to roll out a new Fixed Income Trading System (FITS) in July 2005, to provide real-time, online bid-ask prices.

Rating Agencies

Pefindo is Indonesia's largest rating agency, established in 1994 through the initiative of BAPEPAM and Bank Indonesia. Pefindo is a private limited liability company owned by 100 domestic shareholders including pension funds, banks, insurers, securities companies and the Jakarta and Surabaya Exchanges. Pefindo is an affiliate of Standard & Poor's and adapts Standard & Poor's methodology in its rating process. About 60 % of its business is rating domestic investment grade corporate bonds, and it also publishes credit opinions on corporate bond issuers. Pefindo recently started to incorporate good governance as a sub-element of its rating methodology. (Note: More about Pefindo and its methodology can be found at www.pefindo.com.) Indonesia's only other rating agency is Kasnic Credit Rating Indonesia, incorporated in 1998. Kasnic is affiliated with Fitch Ratings through its shareholder Duff and Phelps. (See www.kasnicrating.com for more information.) Kasnic's focus includes asset-backed securities including plans for securitized mortgages, which are not yet developed in Indonesia. Kasnic also rates small banks and some corporate bonds.